

Press Release

Sri Salasar Balaji Textiles Private Limited

March 17, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.41	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	49.62	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	1.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	75.03	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating at '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short term rating at '**ACUITE A3** (read as **ACUITE A Three**) on the Rs. 50.62 Cr bank facilities of the Sri Salasar Balaji Textiles Private Limited (SSBTPL or Sri Salasar Balaji group).

Acuite has also assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) on the Rs. 24.41 Cr bank facilities of the Sri Salasar Balaji Textiles Private Limited (SSBTPL or Sri Salasar Balaji group).
The outlook is '**Stable**'.

Rationale for Reaffirmation

The reaffirmation reflects satisfactory operating performance of Sri Salasar Balaji Group's in FY2022 and expectations of stable performance in FY 2023, its comfortable financial risk profile and efficient working capital operations, the extensive experience of promoters and location-specific advantage by being in proximity to the cotton growing areas of Mahabubnagar (Telangana). The above rating strengths are partly mitigated by intense competition in the industry and vulnerability of its margins to fluctuating raw material and yarn prices.

About Company

Incorporated in November 2017, Sri Salasar Balaji Textiles Private Limited (SSBTPL) is engaged in manufacturing of cotton yarn. Mr.Dhiraj Kumar Khetan is the promoter of the company. The plant is located in Adilabad, Telangana with an installed capacity of 48,000 spindles. SSBTPL started commercial operations July, 2019.

About the Group

Sri Salasar Balaji Agro Tech Private Limited

Incorporated in 2003, Sri Salasar Balaji Agro Tech Private Limited (SSBATPL) is a Hyderabadbased company engaged in the business of FP Bales (full pressed bales) and cotton yarn. Mr. Dhiraj Kumar Khetan and his family members are the promoters of the company.

Shyam Cotton Trading Company

Shyam Cotton Trading Company (SCTC) is a proprietorship concern, established in 2003 by Ms. Manju Khetan. SCTC is based in Hyderabad (Telangana) engaged in trading of cotton.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered consolidated financials of Sri Salasar Balaji Agrotech Private Limited (SSBATPL), its wholly owned subsidiary - Sri Salasar Balaji Textiles Private Limited (SSBTPL) and Shyam Cotton Trading Company (SCTC), together referred to as the Sri Salasar Balaji Group. The consolidation is on account of strong operational, financial and managerial linkages.

Key Rating Drivers

Strengths

Extensive experience of promoters and long operational track record of operations

Sri Salasar Balaji Textiles Private Limited (SSBTPL) belongs to Sri Salasar Balaji Group, which has presence in the cotton textile industry for more than three decades. Mr. Dhiraj (Managing director) is actively engaged in managing the day to day operations of the company along with adequate support from other family members who also have been associated with the cotton industry. The manufacturing facility of the company is strategically located in Mahboobnagar district, which is a hub for horticultural. Raw cotton being the major raw material is available abundantly in close proximity of the unit. Further, the promoters have long and established relationship with the farmers as well as traders which augurs well for the company. The promoters have established long relationships with various stakeholders across the value chain, aiding in repeat orders from key customers.

Acuité believes that Sri Salasar Balaji group will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

Improved Operating Performance

The group recorded an revenue of Rs.1300.13 Cr in FY2022 as against Rs.723.70 Cr in FY2021 which is a growth of ~80 percent and has achieved this on account of high demand with higher volumes, favourable pricing environment and addition of new customer base across all locations and business diversification along with continued international demand and competitive pricing. Salasar Group's revenue grew at a CAGR of 64 % during FY20-FY22. The group EBITDA margins stood at 1.95 percent in FY2022 as against 3.20 percent in FY2021 on account of volatility in raw material costs. Also, the company undertook trading activity along with the manufacturing activities in SSBTPL to safeguard the revenue profile in FY2022. Further the margins were impacted because of lower realization (per MT) in the manufacturing division. For, 10MFY2023, the Group has reported revenue of Rs.643.93 Cr and expected to sustain its EBITDA margins at 4%- 5% in the medium term, considering a likely moderation in raw material costs with improved realisations in cotton yarn segment.

Acuité believes that Group's scale will improve over the medium and operating margins remaining stable.

Efficient Working capital operations

The working capital management of the group is efficient marked by GCA days of 53 days in FY2022 as against 68 days in FY2021. The inventory days stood at 20 days in FY2022 as against 20 days in FY2021. Generally, the group has an inventory holding period of 30-45 days. The debtor days stood at 25 days in FY2022 as against 15 days in FY2021. The group generally deals on a 100% cash basis but sometimes it gives credit period of 15-20 days to its customers. The Creditor days stood at 23 days in FY2022 as against 13 days in FY2021. The group generally allows a credit period of 20-30 days from its suppliers.

Acuité believes that ability of the group is to maintain its efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Moderate financial risk profile

The financial risk profile of the group stood moderate marked by modest net worth, moderate gearing, and moderate debt protection metrics. The tangible net worth of the group stood at Rs.68.64 crore as on 31 March 2022 as against Rs.56.92 crore as on 31 March, 2021. The total debt of the group stood at Rs.128.14 crore includes Rs.57.79 crore of long-term debt, Rs.11.81 crore of CPLTD, Rs.5.12 crore of Unsecured loans and Rs.53.41 crore of short-term debt as on 31 March, 2022. The gearing (debt-equity) stood at 1.87 times as on 31 March 2022 as compared to 2.26 times as on 31 March, 2021. Interest Coverage Ratio stood at 2.34 times for FY2022 as against 2.10 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.46 times in FY2022 as against 1.99 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.21 times as on 31 March, 2022 as against 2.85 times as on 31 March, 2021.

Acuité believes that with moderate accruals and no significant debt-funded capex plans, the financial risk profile is expected to moderate over the medium term.

Weaknesses

Highly competitive and fragmented industry

Cotton is a 'kharif crop', sowed in June and harvested in October. Therefore, the ginning activities also commence in October and last till March every year, making the business seasonal. Availability of cotton is highly dependent on monsoon. Cotton production, government interventions and fluctuations in global cotton output have resulted in sharp fluctuations in cotton prices in the past and impacted the operating margins of players. Sustenance of the operating margin amid the volatility in cotton price will remain a key sensitivity factor. Operating margins of Salasar Group have oscillated in the range of 1.74 -4.68 percent over FY2020-22. Cotton, which is the main raw material required for ginning, is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of raw cotton in adverse weather conditions. The cotton industry is highly competitive with multiple players coupled with low entry barriers resulting in intense competition from both the organised as well as unorganised players.

Acuité believes that operating margins of the entire value chain - ginners and spinners continue to be exposed to the volatile raw material prices and impacts on profitability. Also, the low value-additive nature of the business results in thin profit margins for the group.

ESG Factors Relevant for Rating

Not Applicable.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material Covenants

None.

Liquidity Position

Adequate

The group's liquidity position is adequate, marked by healthy net cash accruals against its maturity debt obligations. The group generated net cash accruals in the range of Rs.5.70-Rs.18.44 Crore from FY 2020- 2022 against its maturity repayment obligations in the range of Rs.7.87-Rs.11.81 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of ~Rs.20-Rs.25 crores against the maturing repayment obligations

of Rs.11-13 crore over the medium term. The working capital management of the group is efficient marked by GCA days of 53 days in FY2022 as against 68 days in FY2021. The average utilization of the working capital facilities stood at ~50%-60% of the sanctioned amount for past 10 months ended January 2023. The group maintains unencumbered cash and bank balances of Rs.2.12 crore as on March 31, 2022. The current ratio of the group stands at 1.23 times as on March 31, 2022 as against 1.57 times as on 31 March, 2021.

Acuite believes that though cash accruals are adequate, however, managing the working capital efficient operations will remain a key rating sensitivity factor.

Outlook: Stable

Acuite believes that Sri Salasar Balaji group will continue to benefit over the medium term due to its "established market position and established relations with its customers. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Group's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1300.33	723.70
PAT	Rs. Cr.	11.01	5.77
PAT Margin	(%)	0.85	0.80
Total Debt/Tangible Net Worth	Times	1.87	2.26
PBDIT/Interest	Times	2.34	2.10

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Mar 2022	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	35.62	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A3 Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.59	ACUITE BBB- Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	24.41	ACUITE BBB- Stable Assigned
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	34.03	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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